






Lesson Plan

Other Income, Form 1040, Line 21

Time Required: 60 minutes

Introduction	Objectives	Topics
This lesson covers how to identify and report income sources that do not have their own line on Form 1040. It also addresses International certification topics such as the foreign earned income exclusion reported on Form 2555 or Form 2555-EZ.	<p>Determine:</p> <ul style="list-style-type: none">• Other types of income and how to report them• How to properly report income earned from worldwide sources• Who is eligible for the foreign earned income exclusion• How to calculate the excludible amount using Form 2555, Foreign Earned Income, or Form 2555-EZ, Foreign Earned Income Exclusion	<div></div> <p>Other Income</p> <div></div> <p>Worldwide Income</p> <p>Foreign Earned Income Exclusion</p> <p>Period of Stay</p> <p>Qualifying Income</p> <p>Reporting Other Income</p>

Key Terms

Blocked income: Blocked income is when a taxpayer cannot convert foreign currency to U.S. dollars due to local law or local government policy. Special tax rules allow taxpayers with blocked income to delay reporting part of their income.

Bona Fide Residence Test: To meet the bona fide residence test for the foreign earned income exclusion, taxpayers must show that they have set up permanent quarters in a foreign country for an entire, uninterrupted tax year.

Coverdell ESA: A Coverdell ESA is a trust or custodial account created or organized in the United States only for the purpose of paying the qualified education expenses of the designated beneficiary of the account.

Foreign Earned Income Exclusion: The foreign earned income exclusion allows eligible taxpayers to avoid paying federal income tax on their foreign earned income.

Foreign Tax Credit: U.S. tax credit used to offset any foreign income tax taxpayers have paid on qualified income that is also subject to U.S. federal income tax.

Period of Stay: Amount of time a taxpayer stays in a foreign country, which is one of the factors used to determine whether the taxpayer is eligible for the foreign earned income exclusion. To meet the period of stay requirement, the taxpayer must meet either the Bona Fide Residency test or the Physical Presence test.

Physical Presence Test: To meet the physical presence test for the foreign earned income exclusion, a taxpayer must be physically present in a foreign country 330 full days during a period of twelve consecutive months.

Regular Place of Abode: One's home, habitation, domicile, or place of dwelling. For purposes of the foreign earned income tax exclusion, if a taxpayer works overseas for an indefinite period of time, and his or her regular place of abode is the U.S., the taxpayer cannot designate the foreign country as the tax home.

Tax Home: The country in which the taxpayer is permanently or indefinitely engaged to work as an employee or self-employed individual, regardless of where the taxpayer maintains his or her family home. For taxpayers who work abroad, but do not have a regular place of business because of the nature of the work, their tax home is the place where they regularly live.

Worldwide Income: U.S. citizens and U.S. resident aliens are required to report worldwide income on a U.S. tax return regardless of where they live and even if the income is taxed by the country in which it was earned. Filing requirements are the same as for U.S. citizens and U.S. resident aliens living in the United States and apply whether income is from within or outside the U.S.

Teacher Tips

Guidelines for Lesson

Guideline	Instructor Notes	Presentation Aids
Lesson background info	<p>Advise students this lesson covers how to report "other income" that is not reported on a specific line of Form 1040. In addition, it covers the foreign income exclusion that is reported as a negative amount on line 21.</p> <p>Review the online demo of TaxWise on Other Income.</p>	<p>TaxWise® Demo:</p> <p>From the Practice Lab, select :</p> <ul style="list-style-type: none"> • TaxWise IRS training • TaxWise Desktop Preparer with VITA/TCE Training menu or the TaxWise Online Preparer with VITA/TCE Training menu • Click the Income button, then select Part 2.
Provide details and engage the students	<p>Discuss all tips and cautions in detail.</p> <p>Ask students to read and/or role-play examples and sample interviews.</p> <p>Review answers to each exercise; ask students how they arrived at their answers.</p>	<p>Internet:</p> <p>Link & Learn Taxes (L&LT) Other Income, Form 1040 Line 21</p>

Topic-specific Tips

Topic Name	Instructor Notes	Presentation Aids
Introduction	<p>Review lesson objectives.</p> <p>Discuss this lesson is one of the nine lessons that cover income.</p> <p>Review list of references.</p> <p>State the presentation time.</p>	<p>Visuals:</p> <p>Form 1040, Page 1 – Income section</p> <p>Form 13614-C, Page 2, Part III</p> <p>Forms 2555 and 2555-EZ</p> <p>Pub 4012, Income tab</p>
Other Income	<p>Review L&LT topic Other Income.</p> <p>Direct students to Pub 4012, Table A – Examples of Taxable Income.</p> <p>Prompt students to cite examples of “other income.”</p> <p>Direct students to the TaxWise Income screen, line 21.</p> <p>Remind students that Jury Duty and Gambling Winnings are items frequently seen at volunteer sites.</p> <p>Show YouTube video on Miscellaneous Income</p> <p>Show Forms 1099-MISC and 1099-Q.</p> <p>Demonstrate linking to Form W-2G in TaxWise.</p>	<p>Visuals:</p> <p>Form 1040, line 21</p> <p>Form 1099-MISC, boxes 3 and 7</p> <p>Form 1099-Q, box 1</p> <p>Pub 4012, Income tab:</p> <ul style="list-style-type: none"> • Table A – Examples of Taxable Income • How/Where to Enter Income <p>Internet:</p> <p>L&LT Other Income, Other Income</p> <p>Tax Topics: Gambling Winnings and Losses</p> <p>Tax Topics: Gambling Winnings are Always Taxable Income</p> <p>YouTube video: Miscellaneous Income</p> <p>TaxWise Demo:</p> <p>TaxWise Screen links from Form 1040, line 21 to Form W-2G (Gambling Winnings) and the Other Income worksheet.</p>
Worldwide Income	<p>Review L&LT topic on Worldwide Income.</p> <p>Point out that amounts on a U.S. return must be converted to U.S. dollars.</p>	<p>Visuals:</p> <p>Form 1040, line 7</p> <p>Pub 4012, Income tab, How/Where to Enter Income</p>

	<p>Ask students: What exchange rate do you use on the income?</p> <p>Answer: Use the rate in effect when the income was received.</p> <p>Show the formula for foreign currency conversion.</p>	<p>Internet:</p> <p>L&LT Other Income, Worldwide Income</p> <p>FAQ: Is there an Internet site with exchange rates...?</p>
Foreign Earned Income Exclusion	<p>Review L&LT topic Foreign Earned Income Exclusion.</p> <p>Point out that volunteers should help taxpayers determine if taking the exclusion will benefit them.</p> <p>Point out when considering foreign earned income exclusion, U.S. territories such as Puerto Rico and the Virgin Islands are not considered foreign countries.</p> <p>Point out that the tax home is generally the country in which taxpayers maintain their place of business.</p> <p>Direct students to Pub 54 for detailed information on determining the taxpayer's abode and tax home.</p> <p>Optional: Ask students to role-play the case study and the topic activity scenario.</p>	<p>Visual:</p> <p>Form 1040 Instructions, Foreign Earned Income Tax Worksheet</p> <p>Form 1040, lines 7 and 21</p> <p>Forms 2555 and 2555-EZ</p> <p>Pub 54, Chapter 4, Foreign earned income exclusion</p> <p>Internet:</p> <p>L&LT Other Income, Foreign Earned Income Exclusion</p> <p>FAQs: Foreign Earned Income Exclusion</p> <p>FAQs: U.S. Citizens Overseas</p> <p>FAQ: Does a U.S. citizen who moved to Canada ...pay both U.S. and Canadian taxes?</p> <p>Tax Trail: Foreign Earned Income Exclusion</p>
Period of Stay	<p>Review L&LT topic Period of Stay.</p> <p>Ask: What is required to meet the period of stay requirement? See topic for answer.</p> <p>Ask: How many days are required to qualify for the physical presence test? Answer: 330 full days for a consecutive 12 months.</p> <p>Optional: Ask students to role-play the topic activity scenario (instead of playing the audio). Ask if they have any questions.</p>	<p>Visual:</p> <p>Pub 54, Chapter 4, Foreign earned income exclusion</p> <p>Internet:</p> <p>L&LT Other Income, Period of Stay</p> <p>Tax Trail: Bona Fide Residence Test</p> <p>Tax Trail: Tax Home in a Foreign Country</p> <p>Tax Trail: Physical Presence Test</p>

Qualifying Income	<p>Review L&LT topic on Qualifying Income.</p> <p>Ask: What does and does not qualify as foreign earned income for the exclusion?</p>	<p>Visuals:</p> <p>Pub 4012, Income tab, Table A – Examples of Taxable Income</p> <p>Internet:</p> <p>L&LT Other Income, Qualifying Income</p>
Reporting Form 2555 and 2555-EZ	<p>Review L&LT topic Reporting Other Income.</p> <p>Direct students to TaxWise Income screen, line 21, and link to Form 2555 or Form 2555-EZ.</p> <p>Point out the exclusion amount will be calculated by TaxWise and entered as a negative number on Form 1040, line 21.</p>	<p>Visuals:</p> <p>Form 1040, lines 7 and 21</p> <p>Forms 2555 and 2555-EZ</p> <p>Pub 54, Chapter 4, Foreign earned income exclusion, sample Form 1040 and Form 2555-EZ for James and Judith Adams</p> <p>Pub 4012, Income tab:</p> <ul style="list-style-type: none"> • How/Where to Enter Income in TaxWise • Additional Dividends Entries <p>TaxWise Demo:</p> <p>TaxWise screen links to Income, line 21</p> <p>Other Income worksheet</p> <p>Form 2555 or 2555-EZ</p>
Summary	<p>Review the Summary and Exercises with the class.</p>	<p>Visuals:</p> <p>L&LT Other Income, Summary</p> <p>L&LT Other Income: Click Assessments icon to review Summary and Exercises</p>

Practice	<p>Select practice exercise for Form 1040, line 21.</p> <p>Ask students to select the problem based on their certification course of study.</p> <p>Verify they have correctly completed Form 2555-EZ and Form 1040 line 7 and 21.</p>	<p>Publication 4491-W Basic Comprehensive Problem and Practice Exercises</p> <p>Publication 4491-W Advanced Comprehensive Problem and Practice Exercises</p> <p>Publication 4491-W International Comprehensive Problem and Practice Exercises</p>
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References	
L<	Other Income, Form 1040 Line 21
Form 1040	Form 1040 , Line 21
Form 13614-C	Form 13614-C , Intake/Interview & Quality Review Sheet, Page 2, Part III
Pub 4012	Pub 4012, Volunteer Resource Guide, Income tab Table A – Examples of Taxable Income How/Where to Enter Income Additional Dividends Entries
Pub 4491-W	Pub 4491-W , Form 2555-EZ and Form 1040 line 7 and 21
Form 1040 Instructions	Form 1040 Instructions
Form 2555	Form 2555 , Foreign Earned Income
Form 2555-EZ	Form 2555-EZ , Foreign Earned Income Exclusion
Pub 17	Pub 17 , Chapter 12, Other Income
Pub 54	Pub 54 , Tax Guide for U.S. Citizens and Resident Aliens Abroad

Optional

Pub 525 [Pub 525](#), Taxable and Nontaxable Income

Pub 970 [Pub 970](#), Tax Benefits for Education

Recommended Classroom Activities



Tax Facts



Assessments

Media: Videos
& AudioTaxWise
Tutorial

Job Aids

Practice
Lab

Tax Facts: Link & Learn Taxes Other Income, Form 1040, Line 21

Click Tax Facts for a new way to access Link & Learn Taxes Other Income.



Assessments – Summary and Exercises

Click Assessments for a new way to access the Summary and Exercises in Link & Learn Taxes Other Income.



Media: Video & Audio for Lesson

YouTube video on Miscellaneous income

<http://www.youtube.com/watch?v=ZEybWZmC-0w&lr=1>



TaxWise Tips and Resources for Lesson

TaxWise Screens	Income, line 21
	Form W-2G Worksheet
	Other Income Worksheet
	Forms 2555 or 2555-EZ
Practice Lab Tutorial	From the Practice Lab, select:
	1. TaxWise IRS training
	2. TaxWise Desktop Preparer with VITA/TCE Training menu or the TaxWise Online Preparer with VITA/TCE Training menu
	3. Click the Income button, then select Part 2
TaxWise Solution Center	https://support.taxwise.com/



Job Aids

ITA and FAQs for Lesson

FAQs

Is there an Internet site with exchange rates...?

<http://www.irs.gov/Individuals/International-Taxpayers/Frequently-Asked-Questions-About-International-Individual-Tax-Matters#ExchangeRates>

Foreign Earned Income Exclusion

<http://www.irs.gov/Individuals/International-Taxpayers/Frequently-Asked-Questions-About-International-Individual-Tax-Matters#ForeignEarnedIncomeExclusion>

U.S. Citizens Overseas

<http://www.irs.gov/Individuals/International-Taxpayers/Frequently-Asked-Questions-About-International-Individual-Tax-Matters#GeneralFAQs>

Does a U.S. citizen who moved to Canada ...pay both U.S. and Canadian taxes?

<http://www.irs.gov/Individuals/International-Taxpayers/Frequently-Asked-Questions-About-International-Individual-Tax-Matters#TopFAQs>

Tax Trails

Tax Topics: Gambling Winnings and Losses

<http://www.irs.gov/taxtopics/tc419.html>

Tax Topics: Gambling Winnings are Always Taxable Income

<http://www.irs.gov/uac/Gambling-Winnings-Are-Always-Taxable-Income>

Foreign Earned Income Exclusion

<http://www.irs.gov/Individuals/International-Taxpayers/Foreign-Earned-Income-Exclusion>

Bona Fide Residence Test

<http://www.irs.gov/Individuals/International-Taxpayers/Foreign-Earned-Income-Exclusion---Bona-Fide-Residence-Test>

Tax Home in a Foreign Country

<http://www.irs.gov/Individuals/International-Taxpayers/Foreign-Earned-Income-Exclusion---Tax-Home-in-Foreign-Country>

Physical Presence Test

<http://www.irs.gov/Individuals/International-Taxpayers/Foreign-Earned-Income-Exclusion---Physical-Presence-Test>

References for L< Other Income

<http://apps.irs.gov/app/vita/content/15/references.jsp>
